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**OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS**



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Memorandum

To: Jill Claybour, Acting Executive Director
Community Development Administration (CDA)

CC: Lorna Alexander, Special Assistant to the Director
Community Development Administration (CDA)

From: Dr. Kenneth M. Stone, CPA *KMS*
Internal Audit Executive

Date: August 25, 2009

Re: Third Ward Neighborhood Council (Project #2009-12)

The Internal Audit Section (IAS) has completed a special review of the Third Ward Neighborhood Council (Agency) for the period January 1, 2008 through December 31, 2008. The review was limited to operational and financial controls in place, determining whether the internal controls are operating effectively to ensure compliance with laws, regulations and contract provisions, and following ups on concerns raised by CDA and the Ward Alderman.

The objectives of the review were to determine the following:

- The balance of payroll and earning taxes owed as of December 31, 2008 and whether all payroll taxes were paid in accordance with federal, state and local regulations and requirements
- That all transactions were properly documented and allowable under the contract provisions
- That grant funds were properly accounted for
- That all assets purchased with grants funds were properly safeguarded as required by the contract
- That the Agency's board improved their oversight responsibilities

The following are observations resulting from the review:

1. Failure To Pay Federal, State, And City Payroll Taxes For The Calendar Year 2008

The Agency received reimbursements from CDA for payroll taxes from January 1, 2008 through October 10, 2008 totaling \$45,770.62 (see the schedule below).

**SCHEDULE OF FEDERAL, STATE AND LOCAL TAXES
REIMBURSED BY CDA**

January 1, 2008 through October 31, 2008

Taxes Charged	Amount
Federal-Withholding Tax	\$16,519.00
FICA Employee	11,531.58
FICA Employer	11,531.58
State Income Tax	4,735.06
Local Earning Tax	<u>1,453.40</u>
Total Reimbursed Taxes	<u>\$45,770.62</u>

The Agency made various payments by check to respective taxing authorities during the period January 1, 2008 through October 31, 2008 in the amount of \$16,081.37. In addition, we noted several ADP electronic debits were charged to the Agency's bank account described as tax payments between June 1, 2008 through October 31, 2008 totaling \$20,283.54 (see the schedule below).

SCHEDULE OF PAYMENTS MADE TO TAXING AUTHORITIES.

January 1, 2008 through October 31, 2008

Taxing Authorities	Amount Paid
Internal Revenue Service (IRS)	\$13,816.92
Dept of Revenue	1,612.00
Dept of Revenue-Unemployment Tax	150.62
City of St Louis	<u>501.83</u>
Total Payments by Check	16,081.37
Payments made by ADP	<u>20,283.54</u>
Total Payments Noted	<u>\$36,364.91</u>

The total reimbursements for payroll taxes exceeded total payments by \$9,405.71.

Further review of the Agency's records revealed correspondence dated March 19, 2009 from the IRS. Federal payroll taxes, including interest and penalties of \$15,087.61 for the fourth quarter of 2007 and \$5,146.70 for the second quarter of 2008 were due as of March 29, 2009.

2. Failure To Comply With Repayment Agreement For Past Due Payroll Taxes

The Agency did not comply with the terms of the IRS repayment agreement to pay off a \$32,579.72 tax lien for 2007. The agreement required the Agency to pay \$1,000 monthly to reduce the tax balance due. The Agency made two payments in July and August of 2008.

3. Existing Tax Liens And Court Summons

The Agency has been assessed the following tax liens and summons for failure to pay payroll taxes:

- An state unemployment tax lien totaling \$928.73 for the second quarter of 2008
- A state withholding tax lien, as of February 27, 2009, of \$2,381.12 for the third quarter of 2008
- A City summons was issued March 17, 2009 to appear in court for returns not filed. As of June 11, 2009, the Agency owed the Collector of Revenue earning taxes for the first and second quarter of 2008 and the first quarter of 2009.

4. Unsupported And Unallowable Expenditures - \$5,088.02 In Questionable Costs

The following expenditures were made for which no supporting documentation was available and are considered unallowable under the terms of the contract:

- Bank overdraft fees of \$630.00 were assessed from July through September 2008.
- The Agency's insurance policy with the Freedom Life Insurance was cancelled on March 2007. However, the bank account was continuously debited from April 2007 through September 2008 for \$1,160.52 (\$30.54 X 38).
- The Agency issued check numbers 4244 and 4245 for \$650.00 and \$350.00, respectively, described as payments for cemetery and funeral home services. The payments were approved as salary advances. There was no evidence of repayments or deductions from future salary payments.
- Payroll check number 10179 for \$1,031.32 was issued on September 8, 2008. The check was returned on September 15, 2008 for insufficient funds. Check number 4303 for \$950.00 was issued as a partial replacement check. Check number 10179 was represented to the bank, for the second time, and cashed on September 23, 2008. The check number 4303 for \$950.00 received and cashed by the employee is considered salary overpayment and is unallowable.

- Payments considered questionable for lack of adequate supporting documentation include the following:

Date	Check#	Amount	Description
February 2008	4170	\$300.00	Collection bureau
June 2008	4239	500.00	Issued to an individual for a computer
July 2008	4266	25.00	Issued to the Executive Director
July 2008	4247	300.00	Collection bureau
July 2008	4265	16.50	No documentation
October 2008	4304	<u>206.00</u>	Issued to the Executive Director
Total		<u>\$1,347.50</u>	

5. Return Of Equipment

The Agency's inventory listing was reviewed. All equipment purchased with CDA funds was returned to CDA, except for the Konica Minolta copy machine (model #C451 DTS) at the approval of CDA.

6. Inadequate Financial Records And Control Over Cash Disbursement

The Agency maintained hand-written general ledgers. The ledgers were not reconciled to the bank statements. In addition, the Agency did not maintain an accounting system to account for each type of transaction, therefore ledgers were considered inadequate for tracking expenditures in accordance with terms of the contract.

A review of the Agency by-laws revealed that only the Board President, the Vice-President and Treasurer or the Assistant Treasurer were authorized to sign checks. Our review of cancelled checks for the months of January, June, August and October 2008 revealed that the Board President and the Executive Director were the only two individuals signing checks, contrary to the by-laws.

7. Agency Funds Were Properly Segregated

We have found no evidence that other funds were commingled with the CDA funds deposited in the Agency's Bank of America checking account.

8. Agency's Board Oversight Responsibilities

A review of the Agency's minutes of the board meetings from February 6, 2008 through December 31, 2008 revealed the following:

- After funding was stopped in November 2008, the Agency's board met on a regular basis to discuss finances.
- Going concern issues, discussions to incorporate another agency to take over the functions of the Agency and attempts by one board member to resign were

observed. The board proposed to form a new corporation to be named 3rd Ward Housing Corporation.

- The Agency's Executive Director granted a salary advance to an employee without the approval of the board.